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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 1202
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3336
RUEHBJ/AMEMBASSY BEIJING 5444
RUEHUL/AMEMBASSY SEOUL 7949
RUEHGP/AMEMBASSY SINGAPORE 6515
RUEHKO/AMEMBASSY TOKYO 7845
RUEHML/AMEMBASSY MANILA 9761
RUEHJA/AMEMBASSY JAKARTA 3888
RUEHKL/AMEMBASSY KUALA LUMPUR 3529
RUEHHI/AMEMBASSY HANOI 3099
RUEHBY/AMEMBASSY CANBERRA 4249
RUEHWL/AMEMBASSY WELLINGTON 1530
RUEHHK/AMCONSUL HONG KONG 6649
RUEHGH/AMCONSUL SHANGHAI 0248
RUEHGZ/AMCONSUL GUANGZHOU 9428

UNCLAS SECTION 01 OF 02 TAIPEI 002467

SIPDIS

SIPDIS

STATE PLEASE PASS AIT/W AND USTR
STATE FOR EAP/TC, EAP/EP
USTR FOR WINTER AND WINELAND
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Vietnam: Taiwan's 2nd Largest Export Base

REF: HANOI 01824

SUMMARY

[¶1.](#) Vietnam has become an important export base for Taiwan companies including a growing number of manufacturers of labor-intensive industries that have relocated from China. Taiwan has become the Vietnam's largest source of foreign direct investment and the largest source of its trade deficit. Taiwan firms have become Vietnam's major exporters and foreign exchange earners. END SUMMARY.

Mission Organized by Opposition Legislator

[¶2.](#) A Taiwan trade mission organized by Legislator Christina Liu (PFP) visited Vietnam May 18 - 21. In addition to business leaders, the mission included 14 legislators, including seven from the ruling DPP Party. According to Legislator Liu, the mission was warmly received by Vietnam officials.

Taiwan Firm First to List in Vietnam

[¶3.](#) Although the PFP that she represents in the Legislative Yuan (LY) has been a major advocate of Taiwan investment in China and direct cross-Straits navigation, Legislator Liu has urged Taiwan business firms to switch their attention from the United States and the PRC to Vietnam. She has publicly reminded business groups that the share price of Taiwan's Tai Ya Electrical Wire and Cable has surged over 70% since the company became the first foreign firm to list on Vietnam's stock market in March 2006.

Investment in Vietnam Is Insignificant to Taiwan

¶4. According to Taiwan's Foreign Investment Commission, Taiwan firms' cumulative investment in Vietnam by the end of 2005 reached USD 1.2 billion, however, this is only 1.3% of Taiwan's total foreign investment, much less than the 51.5% of foreign investment sent to China, 18.4% sent to the tax havens of the Caribbean, and 9.2% sent to the United States.

But Significant to Vietnam

¶5. In 2005, Taiwan replaced Singapore as Vietnam's largest source of foreign investment, with cumulative direct investment from Taiwan totaling USD 7.9 billion, according to Vietnam's official statistics. Taiwan investment is estimated at over USD 10 billion if funds going through the Cayman and Virgin Islands are included. (Note: The difference between Vietnam's official figure of USD 7.9 billion and Taiwan's number of USD 1.2 billion is because many Taiwan investors fail to register with Taiwan authorities. End Note.)

Bilateral Trade Favors Taiwan

¶6. Taiwan enjoyed a trade surplus with Vietnam in 2005 of USD 3.4 billion, 21% of Taiwan's total trade surplus and 73% of Vietnam's total trade deficit, although exports to Vietnam constituted only two percent of Taiwan's total exports. Imports from Vietnam accounted for only 0.4% of Taiwan's total imports.

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¶7. Taiwan is Vietnam's fifth largest trading partner, third largest source of imports, and ninth largest export market. Vietnam's imports from Taiwan in 2005 totaled USD 4.3 billion equivalent to 12% of Vietnam's total imports.

Accommodating Plants Struggling with Higher Costs in PRC

¶8. Taiwan began in 1991 to build production bases in Vietnam where labor and land costs as well as environmental requirements are lower than in China. Relocating to Vietnam has permitted Taiwan firms to regain competitive advantages through tax and other incentives no longer available in China. Vietnam has granted Taiwan firms capital remittance privileges that were never available in China, according to Legislator Christina Liu.

Vietnam's Foreign Exchange Earners

¶9. Most Taiwan manufacturing in Vietnam is export-oriented textiles, plastics, footwear, furniture, paper, cement, motorcycles, and bicycles. Taiwan firms have advantages in capital, technology, and management know-how, but many of them still rely heavily on OEM (original equipment manufacturing) arrangements under which they rely on famous brand companies for marketing. The production inputs come mainly from Taiwan and China. The finished products go to markets in the United States, EU nations, and Japan.

¶10. Three major Taiwan footwear suppliers for such famous brands as NIKE and ADIDAS have relocated production facilities from other ASEAN nations and China to Vietnam. Several Taiwan bicycle companies have moved assembly lines to Vietnam to avoid European anti-dumping duties against China.

¶11. Uni-President, one of Taiwan's largest animal feed makers and chain-store operators, has constructed animal feed plants in Vietnam which are critical for developing a livestock industry there. San Yang, the top motorcycle maker in Taiwan, dominates the motorbike market in Vietnam. Formosa Plastic, one of the top ten business conglomerates in Taiwan, has become the largest single foreign investor in Vietnam and an important supplier of plastic and petrochemical inputs required by textile, apparel, and footwear

makers. Formosa Plastic now operates one power plant and is building several others to meet growing power demands due to industrial expansion in Vietnam.

Taiwan Banks and Insurance Firms in Vietnam

¶12. To service Taiwan businesses and the about 30,000 Taiwan business people in Vietnam, Taiwan banks have set up 18 offices in Vietnam. With total assets of USD 800 million, Taiwan's banks in Vietnam reported after-tax profits of USD 1.3 billion in 2005.

¶13. In its WTO accession agreement with Taiwan signed in September 2005, Vietnam opened its insurance markets. Since then, two life and two non-life insurance companies from Taiwan have set up branches and brokerage firms there.

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